# LIFE POST-NAIC UPDATE WEBINAR
# SUMMER 2016

AMERICAN ACADEMY *of* ACTUARIES
*Objective. Independent. Effective.*™

SEPTEMBER 15, 2016

# Agenda

- Moderator—Dave Neve, MAAA, FSA, CERA
  - Chairperson, American Academy of Actuaries Life Reserves Work Group
- NAIC LATF/PBR Update—Mike Boerner, MAAA, ASA
  - Director, Actuarial Office, Texas Department of Insurance
  - Chair, NAIC Life Actuarial (A) Task Force; PBR Review (EX) Working Group; Emerging Actuarial Issues (E) Working Group
- NAIC Variable Annuities Work Group Update—Tom Campbell, MAAA, CERA, FSA
  - Chairperson, Academy AG 43/C3 Phase II Work Group
- Reinsurance Developments—Sheldon Summers, MAAA, FSA
  - Member, Life Practice Council

# Academy NAIC Update Summer 2016

**Mike Boerner, MAAA, ASA**
**Actuarial Office Director**
**Texas Department of Insurance**

**NAIC Chair: Life Actuarial (A) Task Force**
**PBR Review (EX) Working Group**

# Topics

- State Adoption Status of PBR Enabling Law
- PBR & Related Activity:
  - NAIC Exec/Plenary Summer Adoptions
  - Life Actuarial (A) Task Force (LATF)
  - PBR Review (EX) Working Group
  - PBR Implementation (EX) Task Force
- Other LATF Activity

# State Adoption Status as of August 1, 2016

## Source: NAIC

| Legislative Session | # | States | Premium Threshold Percentage |
|---|---|---|---|
| 2013 - 8/1/16 Enacted | 46 | AL, AZ, AR, CA, CO, CT, DE, FL, GA, HI, IL, IN, IA, ID, KS, KY, LA, ME, MD, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VT, VA, WA, WI, WV | 85.7% |
| 2016 Introduced | 1 | MA | 3.2% |
| Total of enacted & introduced<br><br>(Goal: 42 states & 75% premium) | 47 | | 88.9% |

# NAIC (Exec/Plenary) Summer Meeting Adoption Links to 8-29-16 VM and to adopted APFs

- Link to LATF website for 8-29-16 VM, which contains Exec/Plenary Summer APF adoptions
  - http://www.naic.org/documents/committees_a_latf_related_valuation_manual_noapf_160829.pdf

- Link to LATF website for Exec/Plenary Summer APF Adoptions
  - http://www.naic.org/documents/committees_a_latf_related_summer_amendment_adoptions.pdf

    - Slides following this slide provide comment for selected VM amendments which reference the document in the link above.

# NAIC (Exec/Plenary) Summer Meeting Adoptions Selected Valuation Manual Amendments

- VM-20 Product Aggregation (#5):
  - Requires separation of term and ULSG when aggregating products. Affects VM-20 Sections 2, 3, 4, & 5G.  Moves 7B3 to 5A. Other changes include:
    - Requires the deterministic reserve for term and for ULSG in Section 2
    - Clarifies that a company may elect to apply the stochastic reserve for term & ULSG without applying & failing a stochastic exclusion test
    - Provides the term “Product Group” to be relevant to Section 2 application for term / ULSG / all other individual life products as applicable for VM-20. Aggregation is to be done at the Product Group level.

# NAIC (Exec/Plenary) Summer Meeting Adoptions
# Selected Valuation Manual Amendments

- VM-20 Modification of Post-term Profits (#13):
  - Eliminates the use of post-level term profits in the deterministic reserve calculation
  - Requires reflection of any post-level term losses
- VM-G Combined Proposal (#2):
  - Clarifies guidance for the Board and Senior Management
  - Clarifies Qualified Actuaries' responsibilities
  - Makes clear that VM-G applies to PBR in VM-20 & VM-21 and applies to any aggregation of both AG43 & VM-21 business
- VM-20 Companywide exemption (#7):
  - Moved from Section 6 to VM Section II



AMERICAN ACADEMY *of* ACTUARIES

*Objective. Independent. Effective.*™

# NAIC (Exec/Plenary) Summer Meeting Adoptions
# Selected Valuation Manual Amendments

- VM-21 Aggregation (#14):
  - Allows aggregation of AG43 & VM-21 issues and provides a guidance note which says that VM-G will apply to such aggregation
- VM-20 Section 6B changes (#9):
  - Allows use of default costs and reinvestment earnings assumptions from asset adequacy analysis in the Stochastic Exclusion Ratio Test
- VM-31 ERM (#18):
  - Provides more reasonable reporting regarding disclosure of key valuation assumptions that are materially inconsistent with the company’s overall risk assessment process

# NAIC (Exec/Plenary) Summer Meeting Adoptions
# Selected Valuation Manual Amendments

- VM-30 Reference to AG-48 (#16):
  - Includes requirements of AG-48 in VM-30 as applicable for actuarial opinions pursuant to the Valuation Manual
- Comment on other amendments:
  - The remaining amendments primarily provide non-substantive clarifications in VM-20 and VM-31
  - Please refer to the document through the second link provided on slide 6 regarding these other amendments

# Life Actuarial (A) Task Force
# PBR & Related Activity

- Mortality: Joint Academy Life Experience Committee & SOA Preferred Mortality Oversight Group (group):
  - Guaranteed Issue:  LATF provided the group direction to use 2017 CSO loading of 17% and to develop a definition for “guaranteed issue”
    - LATF plans to obtain actual to expected mortality on the new table
  - Preneed:  LATF agreed with the group’s recommendation to continue using the 1980 CSO composite ultimate table that is currently used for preneed

# Life Actuarial (A) Task Force
# PBR & Related Activity

- Mortality: Joint Academy Life Experience Committee & SOA Preferred Mortality Oversight Group (Group):
  - Simplified Issue (SI) Composite Business: LATF provided the group direction to use a 35% loading for the SI composite table and to develop a definition of SI composite business
    - Actual to expected information will be collected
  - SI & Accelerated Underwriting Mortality (AUW): LATF directed the group to collaborate with the LATF Experience Reporting (A) Subgroup to develop a procedure for determining the mortality and loading for SI and for SI AUW
    - LATF also directed the group to develop a definition for "simplified issue"

# Life Actuarial (A) Task Force
# PBR & Related Activity

- Mortality: Joint Academy Life Experience Committee & SOA Preferred Mortality Oversight Group (Group):
  - Technical Correction of the 2017 CSO Composite Mortality Table: For certain ages the 2017 CSO ultimate composite rates are incorrectly set higher than the smoker rates.
    - The group recommended to cap the composite rates to not allow them to exceed the smoker rates.
    - LATF directed the group to make this technical change and to have the revised rates replace the 2017 CSO ultimate composite rates currently on the SOA website.

# Life Actuarial (A) Task Force
# PBR & Related Activity

- VM-20 Annual Default Costs & Investment Spreads:
  - LATF adopted the default costs using data through 2015. The default costs declined across the board for each rating category and weighted average life
  - LATF also adopted the proposed 6/30/16 investment spreads
- VM-20 Default Cost & Investment Spread Methodology:
  - LATF will continue discussions regarding a change to the default cost methodology and possible changes to the methodology regarding both default costs and investment spreads to provide results on a more timely basis

# Life Actuarial (A) Task Force
# PBR & Related Activity

- VM-22 Subgroup:
  - The subgroup continues work on a simplified floor for non-variable annuities and modifying the methodology for determining valuation interest rates for income annuities
  - The subgroup also has a proposal for Model 200 “Separate Accounts Funding Guaranteed Minimum Benefits Under Group Contracts” to achieve consistency with 2015 changes to Model 695 “Synthetic Guaranteed Investment Contracts”

# Life Actuarial (A) Task Force
# PBR & Related Activity

- C-3 Phase II/AG 43 (E/A) Subgroup:
  - The subgroup continues to monitor the work of the Variable Annuities Issues (E) Working Group and the contracted work of Oliver Wyman.
  - Preliminary results of the qualitative impact study (QIS) were presented by Oliver Wyman in July.
  - The initial Oliver Wyman framework proposal was presented to the Variable Annuities Issues (E) Working Group at the Summer National Meeting and is exposed for public comment until November 14.
  - It is anticipated that Oliver Wyman will translate the framework changes into AG 43 and C-3 phase II instructions for the subgroup.



AMERICAN ACADEMY *of* ACTUARIES

*Objective. Independent. Effective.*™

# Life Actuarial (A) Task Force
# PBR & Related Activity

- NPR for Term Policies:
  - Study continues for appropriate changes to the NPR for term policies.
  - ACLI reported that 12 companies are involved to test the NPR and the deterministic reserve which includes evaluation of 11 different sensitivities around the NPR.
  - Results are expected later in September.
- Timing for Updates to the Valuation Manual:
  - Discussion occurred regarding an annual calendar with additional information on the LATF website to supplement the VM Section I requirements regarding VM updates.
  - A conference call will be set up to continue discussions.

# Life Actuarial (A) Task Force
# PBR & Related Activity

- Society of Actuaries:
  - The SOA commented that the next set of durable education components (DECs) will be released in September.
    - These modules will focus on credibility, stochastic modeling, and application of exclusion tests.
  - The SOA also presented initial results of a PBR survey that focused on the use of PBR in 2017 to help regulators and the NAIC assess workload needs.
    - The survey was sent to chief actuaries, appointed actuaries, or key annual statement contacts for 218 direct writers and reinsurers.
    - Findings are to be published at a later date.

# Life Actuarial (A) Task Force
# PBR & Related Activity

- The LATF website currently provides an exposure of the accreditation standard for PBR and the Standard Valuation Law (Model 820).
  - This standard is exposed for comment though Sept. 26.
- Also, amendments for the change in valuation basis for PBR were developed by a drafting group which included LATF members. These amendments were exposed for comment by the Statutory Accounting Principles (E) Working Group (SAPWG) prior to the summer meeting and were adopted by SAPWG at the summer national meeting.
  - A change in valuation basis includes a change to a standardized mortality table for NPR and includes regulatory changes in the reserve methodology.
  - A change in valuation basis does not include reserve changes due to updating PBR assumptions based on the company's experience and does not include reserve changes due to the reported reserve switching between NPR, DR, and SR as the minimum reserve

# PBR Review (EX) Working Group

- PBR Blanks Reporting (EX) Subgroup:
  - The subgroup reported that Blanks (E) Working Group has exposed the PBR Blanks reporting developed by this subgroup for comment through Sept. 16.
  - Given completion of their work the PBR Blanks Reporting (EX) Subgroup was disbanded.
- PBR Review Procedures (EX) Subgroup:
  - The subgroup is currently working on the review of draft edits to the Financial Condition Examiners Handbook prepared by NAIC staff.
  - The subgroup is also reviewing draft edits to the Financial Analysis Handbook with input to be provided by Oct. 31.
  - The subgroup continues to monitor Academy work regarding PBR review procedures including a model governance checklist and a paper discussing the actuarial components of risk focused examinations.

# PBR Review (EX) Working Group

- 2016 PBR Pilot Project:
  - Larry Bruning reported that the remaining 11 participants are progressing with providing the deliverables for this project which include PBR application to a term &/or ULSG product, the VM-31 report, and an excel mockup of the PBR blanks reporting.
  - Results have been received from all 11 participating companies and regulator only calls to discuss these results will begin the week of Sept. 19.
- PBR Model Validation:
  - Larry Bruning reported that NAIC staff has received 3 training sessions on the GGY Axis modeling software with final training scheduled for September.
  - Once training is complete the staff will develop a standard portfolio.
  - It is expected that results from this portfolio run on GGY Axis will be compared to company model results using the same portfolio as part of a calibration process.

# PBR Implementation (EX) Task Force

- Included on the task force agenda was a report on the NAIC's PBR Experience Data Collection Pilot:
  - NAIC staff has made significant progress in developing an online data submission application and implementing technology to collect company experience and maintain confidentiality of the data collected.
  - NAIC staff will continue participating in the pilot program with Kansas to further develop and refine NAIC applications, technology, and internal processes.



American Academy of Actuaries

Objective. Independent. Effective.™

# Other LATF Activity Comments on Items Below

- IUL Illustration (A) Subgroup
- Longevity Risk (A/E) Subgroup
- 2017 GRET (Exposed for 30 days)
- Actuarial Streamlining
- Disbanded the Contingent Deferred Annuity (A) Subgroup

# NAIC Variable Annuity Issues WG Update

**Thomas A. Campbell, MAAA, FSA, CERA**

**Academy:** **Chairperson, Academy AG 43/C3 Phase II Work Group**

# PBA for Variable Annuities

- NAIC Variable Annuities Issues Working Group (VAIWG)
  - Study and address regulatory issues resulting in VA captives
  - Hired Oliver Wyman (OW) to support the project
  - NAIC C3 Phase II/AG 43 Subgroup new charge is to support the VAIWG
- VA Framework for Change adopted by NAIC
  - Directs the Quantitative Impact Study (QIS)

www.naic.org/committees_e_va_issues_wg.htm

# Quantitative Impact Study (QIS)

- February 2016 – July 2016
- Participating companies (15) were provided with technical specifications to test the ideas presented in the Framework document
- Results discussed on Aug. 23, prior to the NAIC Summer National Meeting
  - OW presented their findings
  - Recommended Revisions To AG43 & C3P2

# August 23 VAIWG Meeting

- The recommended revisions were discussed
  - 5 categories
  - 14 sub-categories
    - 8 from the Framework, 6 from the QIS
- VAIWG committed to a "full NAIC process"
  - Drafting edits of AG 43 and C3P2 by mid-September
  - 90 days exposure of proposal (until November 14)
  - VAIWG will then discuss comments
  - Changes will be made and exposed
  - VAIWG will consider another round of testing

# Oliver Wyman Recommended Revisions

- Align Hedge Assets with Liability Valuation
  - 1A Hedge accounting for VA hedges
  - 1B Remove Working Reserve from Stochastic Reserve
  - 1C Simplify reflection of hedges
  - 1D Allow higher credit for CDHS, but require back-testing
- Reform Standard Scenarios (SS)
  - 2A Align reserve SS calculation with stochastic framework
  - 2B Remove C-3 Phase 2 SS
  - 2C Require three sets of drop and recovery scenarios
  - 2D Update prescribed behavior assumptions

www.naic.org/committees_e_va_issues_wg.htm

# Oliver Wyman Recommended Revisions

- Align Total Asset Requirement (TAR) and Reserves
  - 3A Require Starting Assets to be within close to final reserve
  - 3B C-3 = ¼ of difference between CTE(98) and reserves
    - Same distribution as reserve, with adjustment for taxes
- Revise Asset Admissibility for Derivatives and DTAs
  - 4A Higher threshold for designated VA hedge assets
  - 4B Raise 15% limit for DTAs (SSAP 101)
- Standardize Capital Market Assumptions
  - 5A Prescribe VM-20 interest rate generator, spreads and default costs and allow projected negative interest rates
  - 5B Consider alternative equity calibration criteria

www.naic.org/committees_e_va_issues_wg.htm

# VA Captive Disclosure

- NAIC VAIWG has proposed updates to 2015 VA captive disclosures
  - May apply to 2016 and future annual statements
  - Proposal includes disclosure of difference between captive and ceding company AG 43 reserves
  - Comments: differences may not be known due to captive requirements and different hedging strategies
- Exposed by the NAIC Statutory Accounting Principles Working Group

www.naic.org/committees_e_va_issues_wg.htm

# NAIC Reinsurance Update

**Sheldon Summers, MAAA, FSA**

**Academy: Member, Life Practice Council**

# Reinsurance (E) Task Force

- Term and Universal Life Insurance Reserve Financing Model Regulation (Model Regulation) – Background
  - In January 2016, the NAIC adopted amendments to its Model 785 – Credit for Reinsurance Model Law
  - The Model Regulation requirements are based on those in Actuarial Guideline 48, which sunsets once a state adopts the new regulation.
    - Adoption is expected to begin in 2017.

# Model Regulation

- The task force adopted the Aug. 4, 2016, draft, as modified by certain technical edits and any additional changes recommended by the NAIC Legal Division.
- The Model Regulation will be considered by the Financial Condition (E) Committee during a conference call scheduled for Sept. 30.

# Model Regulation

- Changes from the prior draft:
  - For covered policies issued prior to 1/1/2017, the credit for Yearly Renewable Term reinsurance is limited to $c_x$/(2 * number of reinsurance premiums per year), based on the mortality table used to determine the net premium reserve.
  - Recapture is not listed as a remediation alternative. However, a drafting note was added stating that the regulation does not under certain circumstances prohibit a permitted practice that extends the remediation period or allows remediation through recapture.

# Model Regulation

- Changes from the prior draft (cont.):
  - Removed obsolete language referencing the operative date of the valuation manual.
  - Removed exemptions for life insurance policies subject to sections 6F and 6G and portions of policies ceded under YRT treaties subject to section 6E of the *Valuation of Life Insurance Policies Model Regulation,* that are issued on or after the later of the date the policies are subject to VM-20, the effective date of the regulation, and 1/1/2020.

# Model Regulation

- Changes from the prior draft (cont.):
  - Clarified that universal life policies with immaterial secondary guarantees were exempted.

# Model Regulation

- Non-compliance/remediation:
  - Penalty for non-compliance is loss of reinsurance credit that is not supported by primary security.
  - There is no penalty if any deficiency is cured before the due date of the quarterly or annual statement to which the valuation date pertains.
  - As mentioned earlier, permitted practice to extend cure period is not prohibited.

# Reinsurance (E) Task Force

- Other activities:
  - Adopted the changes to the *Uniform Application Checklist for Certified Reinsurers* that were included in the report from the Financial Analysis (E) Working Group
  - Heard concerns regarding European Union countries that are raising barriers to the ability of U.S. insurance groups to do reinsurance business.
    - Made a referral to the Qualified Jurisdictions (E) Working Group to study and report on this matter.

# POST – NAIC UPDATE WEBINAR
# Q & A

STAFF CONTACT:
AMANDA DARLINGTON,
LIFE POLICY ANALYST
DARLINGTON@ACTUARY.ORG

American Academy *of* Actuaries
*Objective. Independent. Effective.*™